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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The Economy Seems Strong . . .

During the first quarter of this year, the "real" gross national product finally regained the level reached before the onset of the recession a year ago. The nation's output of goods and services expanded at a hefty 6.5 per cent seasonally adjusted annual rate compared with the final quarter in 1980. Although much of the upward momentum developed in the fourth quarter of 1980 has since dissipated, an analysis of the various monthly statistics reveals that the GNP actually advanced slightly in March, month-over-month, after a sharp contraction in February, but still remained well below January's high level.

One major factor contributing to the robust rise in real output was a seemingly marked slowing in the rate of inflation. Unadjusted for inflation, the GNP rose at a 14.9 per cent annual pace, the same as in the fourth quarter of 1980. However, the GNP report indicated that inflation—as measured by the implicit price deflator—eased significantly, falling to 7.8 per cent in the first quarter compared with 10.7 per cent in the previous quarter. As a result, more of the first quarter's gain in GNP was attributed to real growth, rather than price changes. Although most other measures of inflation showed some signs of improvement, the quarter's rates of rise were closer to ten per cent than eight per cent.

One possible reason for the better-than-expected price performance was the statistical impact of substantial auto price rebates. The GNP deflator is usually a good measure of inflation since it incorporates changes in consumer preferences in contrast to the consumer price index or the producer price index, both of which measure prices of fixed market baskets of goods. The deflator is particularly useful during periods of high inflation, when consumers adjust their spending habits to cope better with rising prices as they substitute cheaper products for more expensive ones. When those effects are excluded and the relative weights remain fixed, the deflator registered a more substantial 9.9 per cent advance. If the real GNP is recalculated using this new, higher deflator, growth narrows to about 4.4 per cent, only slightly more than the 4.2 per cent annual rate gain posted during the preceding quarter.

. . . While Inflation Eases

There are signs, however, that inflation is, indeed, slowing down. For example, the CPI increased at a 7.2 per cent seasonally adjusted annual rate in March, down from 12 per cent in February. Food commodity prices continued to decline as farmers sent large supplies of meat to the market. Energy prices have moderated and in some areas even declined because of the current worldwide glut of oil and increased conservation by consumers and industry. Even more important, the "core" rate of inflation--determined by long-term trends in wages and productivity—is falling.

Productivity at the nation's private businesses rose at a seasonally adjusted annual rate of 3.9 per cent during the first quarter of this year, the largest quarterly gain since late 1977. During 1980, productivity declined by 0.5 per cent. Wage increases reached in collective bargaining settlements were lower during the first quarter of 1981 than during 1980, as provisions for first year wage increases were nine per cent, down from 9.5 per cent.

The strong first quarter GNP results and the improvement on the inflation front may affect Congressional attitudes towards the Administration's proposal to cut income taxes by ten per cent each year for the next three years. Since the program is designed to stimulate economic growth and dampen the rate of inflation, many members of Congress may want it delayed or amended, in view of the fact that the economy appears to be stronger, and less inflationary, than expected.

The more encouraging March outcome and the outlook for the second quarter are underscored by the 1.4 per cent rise in the March index of leading indicators which had previously declined for three months in a row. Although most of the gain was due to a sharp jump in sensitive crude materials prices, reflecting surging crude oil prices resulting from oil price decontrol in January, six of the available indicators increased, one remained unchanged and only three declined. The composite index of coincident indicators, which tends to change simultaneously with economic activity, rose by 0.1 per cent in March, while the ratio of coincident to

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lagging indicators—which tends to signal turning points in the direction of the economy in advance of the index of leading indicators—rose by almost four percentage points from February.

The Shrinking Trade Deficit . . .

Although the precipitous fall in the merchandise trade deficit may owe something to a fortuitous combination of statistics, it represents principally the working out of a number of trends which have been apparent since the beginning of the year. Foremost among them has been the decline in the value of imported petroleum and petroleum products.

The merchandise trade deficit dropped sharply in March to $451 million (exports f.a.s., imports c.i.f., seasonally adjusted) from a deficit of $3.1 billion in February and $5.4 billion in January. This is the smallest merchandise trade deficit since November, 1975. If imports on the f.a.s. basis are measured against exports, then there was a trade surplus of close to $500 million last month.

Petroleum and related product imports, which amounted to $8.3 billion in January, fell slightly to $8.2 billion in February and then plunged 18.3 per cent in one month to $6.7 billion in March. The price of a barrel of oil rose on average in March to $37.28 from $36.89 in February, but the average daily volume of 5.5 million barrels in March (down from 7.5 million barrels per day in February) was the lowest since June, 1975.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/22/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	131.381	+ 2.876	+ 1.412
Loans to Depository Inst.	.864	− .278	− 1.689
Float	3.000	− .419	− .540
Total Reserve Bank Credit	145.684	+ 2.470	+ 4.205
Treasury Deposits with Federal Reserve Banks	3.969	+ .936	+ .607
Currency Outside Banks	122.888	+ 1.090	+ 9.335
Member Bank Reserves:			
Required	40.739	+ 1.119	− 4.515
Excess (Deficiency)	−.435	− .753	− .672
Total Reserves Held	40.304	+ .366	− 5.187
Net Borrowed Reserves	1.150	+ .475	− 1.007
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	100.591	+ .420	+28.186
Monetary Aggregates†		% Change Since Three Months Ago*	% Change Since Year Ago
M-1A	365.7	− 12.4‡	+ 0.8‡
M-1B	432.1	+ 13.7‡	+ 11.3‡
M-2 (March '81)	1,714.1	+ 9.7	+ 10.3
L (January '81)	2,393.4	+ 13.4	+ 10.5

†Seasonally adjusted. * Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 5/1/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	14.55%	13.90%	13.00%
* Federal Agencies	15.00	15.31	14.81
* Project Notes—Taxfree (46% Taxable Equivalent)	12.96	14.07	14.44
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	15.25	14.75	

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	16.00%	Jun.	16.40%
15- 29 days	16.63	Jul.	16.25
30- 59 days	15.00	Aug.	16.15
60- 89 days	14.50	Sep.	16.00
90-119 days	14.00	Oct.	15.70
120-179 days	13.50	Nov.	15.40
180-209 days	14.00		
210-270 days	12.00		

‡Industrial Paper—Prime		†Federal Funds Effective Rate	17-21%
30- 89 days	16.25%		
90-120 days	16.88		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'81	$ 2,827	$ 2,731	$ 2,572
Gross National Product (1972 Dollars)*	1st Q'81	$ 1,509	$ 1,486	$ 1,502
Percent Change, Annual Rate	1st Q'81	6.5%	3.8%	3.1%
Change in Consumer Prices (all urban consumers)*	Mar '81	7.2%	12.0%	15.6%
Change in Producer Prices*	Mar '81	15.6%	9.6%	13.2%
Civilian Employment (Thousands of Persons)†	Mar '81	98,412	97,927	97,628
Unemployment as % of Civilian Labor Force†	Mar '81	7.3%	7.3%	6.3%
Personal Income*	Mar '81	$ 2,335	$ 2,317	$ 2,101
Leading Indicators Composite Index (1967=100)†	Mar '81n	137.1	135.2	131.5
Industrial Production Index (1967=100)†	Mar '81	151.7	151.1	152.1
Net Change in Consumer Installment Credit†	Feb '81	$ 2.00	$ 0.87	$ 2.40
U.S. Merchandise Trade Balance†	Mar '81n	$ 0.48	−$ 2.16	−$ 2.68
Plant and Equipment Expenditures*	2nd Q'81	$317.29(a)	$310.59(a)	$294.36
Private Housing Starts (Thousands of Units)*	Mar '81	1,284	1,214	1,040
New Construction Expenditures*	Mar '81n	$ 248.0	$ 254.0	$ 236.6
Total Business Inventories†	Feb '81	$ 470.0	$ 465.1	$ 435.2
Total Business Sales†	Feb '81	$ 345.2	$ 345.6	$ 310.2

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

Other imports fell as well. In March, imports of Japanese automobiles were 15 per cent below February, running at an annual rate of 1.5 million vehicles. This, incidentally, is below the 1.7 million level just agreed to by the Japanese at the behest of the Reagan Administration. But imports of machinery and transport equipment increased by 15.3 per cent. Overall, imports declined by 4.5 per cent in value in March from February levels and by 2.1 per cent over December, 1980. An unusual aspect of the decline in imports is that it occurred during a quarter when the U.S. economy grew by a hefty 6.5 per cent.

Exports, on the other hand, were 8.5 per cent higher in value in March than in February, reflecting a steady pattern of improvement in the first quarter. Every major category of exports except one (mineral fuels and products) was higher in March than in February. For the first quarter as a whole, the annual rate of exports was nine per cent above 1980, while imports showed an increase of seven per cent.

. . . Was Broadly Based

Thus, the decline in imports and growth of exports were broadly based, and although much of the improvement may prove transitory, such as declining oil imports, it does bode well for another good year for the current account. The Commerce Department earlier had estimated that there was a $1 billion surplus in exports of goods and services in

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (4/15/81)	111,658	+ 687	+17,410
New York City (4/15/81)	28,194	+ 777	+ 6,954
Commercial Paper (4/15/81)	135,129	+ 445	+13,928

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/15/81)	171,100	– 152	+ 8,844
New York City (4/15/81)	50,124	– 199	+ 2,660

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/15/81)	427,851	+ 3,140	+25,926
New York City (4/15/81)	101,625	+ 1,717	+10,979

Financial Markets

	Friday 5/1/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	15.39%	+ 1.39	+ 4.65
180-Day Bills†	15.21	+ 1.28	+ 4.13
Longest Bills†	14.96	+ 1.71	+ 3.85
Recent Issues:			
12⅝s 3/31/83	15.07	+ .62	
13⅜s 3/31/85	14.39	+ .17	
13s 11/15/90	14.06	+ .41	
12¾s 11/15/10	13.57	+ .43	
Municipals:			
Bond Buyer–20 Bond Index* (4/30/81)	10.94%	+ .14	+ 2.98
Blue List Total ($ Million)	$ 810	– $ 55	+ $ 198
30-Day Visible Supply ($ Million)	$2,436	+ $184	+ $1,228
Total	$3,246	+ $129	+ $1,426
Corporates:			
Moody's Aa Composite (4/30/81)	14.80%	+ .21	+ 2.43
Money Mgr.–30-Day Supply ($ Million)	$6,610	+ $419	+ $1,209
Stocks:			
Dow-Jones Averages:			
Industrials	995.59	– 24.76	+ 184.67
Transportation	423.86	– 17.94	+ 176.34
Utilities	105.52	– 0.95	– 2.80
65 Stocks	383.24	– 10.92	+ 91.08
Standard and Poor's 500 Stocks	132.28	– 2.86	+ 26.7
N.Y.S.E. Composite Index	76.75	– 1.30	+ 16,70
N.Y.S.E. Avg. Daily Vol. for Week (000's)	51,886	– 7,502	+ 21,808

* 46% Taxable equivalent 20.26%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/1/81	Week Ago
Overnight	18.00%	15.63%
1 month	17.50	16.00
3 month	17.50	16.25
6 month	17.38	16.25
1 year	17.75	15.56
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	14.30%	14.10%
Long Term (7 to 15 yrs.)	14.40	14.30

FOREIGN EXCHANGE SPOT RATES

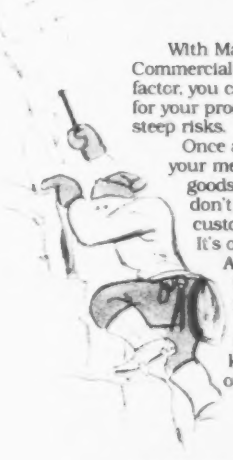
New York Opening (5/1/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02782	35.95
Canada	.8360	1.1962
Denmark	.1436	6.9650
France	.1907	5.2450
Germany	.4525	2.2100
Italy	.0009082	1101.00
Japan	.004633	215.85
Mexico	.04170	23.98
Netherlands	.4072	2.4560
Switzerland	.4950	2.0200
U.K.	2.1410	.4671

the first quarter of this year. If true, this represents a strong but not unprecedented performance in the services sector. Since the cumulative first quarter merchandise trade deficit this year (on the f.a.s. exports and imports basis) was about $6 billion, a $1 billion surplus on goods and services means that in the services account alone there was a $7 billion surplus. This is well below the performance of the services account in the first quarter of 1980, when there was a $10 billion surplus. However, due to a $10.8 billion trade deficit, the balance on goods and services in total was $809 million in the red.

The latest petroleum import data further suggest that economists' ideas about the role of petroleum in U.S. economic growth should be reconsidered. In the first quarter of 1980 when real GNP was $1,501.9 billion, the United States imported 764 million barrels of petroleum and petroleum products. In the first quarter of 1981 when real GNP was $1,509.2 billion (0.5 per cent higher), petroleum and petroleum product imports were 602 million barrels, 21 per cent less. Further, stocks of petroleum and petroleum products in the U.S. were slightly higher at the end of the first quarter of 1981 than at the end of the first quarter of 1980. Crude oil stocks alone were 5.2 per cent higher at the end of March, 1981 than at the same time last year. This improvement must take into account statistical anomalies and the great strides which have been made in energy conservation and substitution over the last year. Nonetheless, it also indicates that there is more room for conservation of energy, without diminishing growth, than many had thought. ■

monetary muscle

Factoring to help consumer goods manufacturers secure their footing.



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